

# Auditing Procedures Report

Issued under Public Act 2 of 1968, as amended .

Unit Name	County	Type	MuniCode
Opinion Date	Audit Submitted	Fiscal Year	

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

**Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".**

<input type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input type="checkbox"/>	13. Is the audit opinion unqualified?
<input type="checkbox"/>	14. If not, what type of opinion is it? <input type="text"/>
<input type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input type="checkbox"/>	18. Are there reported deficiencies?
<input type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="text"/>
General Fund Expenditure:	<input type="text"/>
Major Fund Deficit Amount:	<input type="text"/>

General Fund Balance:	<input type="text"/>
Governmental Activities Long-Term Debt (see instructions):	<input type="text"/>

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	Last Name	Ten Digit License Number		
CPA Street Address	City	State	Zip Code	Telephone
CPA Firm Name	Unit's Street Address	City	Zip Code	

**CITY OF KALAMAZOO, MICHIGAN  
EMPLOYEES' RETIREMENT SYSTEM**

**Financial Statements  
and  
Supplementary Information**

**For the Years Ended  
December 31, 2007 and 2006**



**REHMANN ROBSON**

*Certified Public Accountants*

**CITY OF KALAMAZOO, MICHIGAN  
EMPLOYEES' RETIREMENT SYSTEM**

**TABLE OF CONTENTS**

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	<b><u>PAGE</u></b>
<b>Independent Auditors' Report .....</b>	1-2
<b>Management's Discussion and Analysis .....</b>	3-5
<b>Financial Statements for the Years Ended December 31, 2007 and 2006</b>	
Statements of Plan Net Assets .....	6
Statements of Changes in Plan Net Assets .....	7
Notes to Financial Statements .....	8-13
<b>GASB Required Supplementary Information</b>	
Schedule of Funding Progress .....	14
Schedule of Employer Contributions .....	14
<b>Supplementary Information</b>	
Schedule of Cash and Investments .....	15
<b>Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i> .....</b>	16-17

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**REHMANN ROBSON**

*Certified Public Accountants*

*A member of* **THE REHMANN GROUP**



## **INDEPENDENT AUDITORS' REPORT**

June 30, 2008

Members of the Employees'  
Retirement System Investment Committee  
City Commission of Kalamazoo  
Kalamazoo, Michigan

We have audited the accompanying statements of plan net assets of the ***City of Kalamazoo, Michigan Employees' Retirement System*** as of December 31, 2007 and 2006, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the City of Kalamazoo. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Employees' Retirement System pension trust fund and do not purport to and do not present fairly the financial position and changes in financial position of the City of Kalamazoo, Michigan, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the City of Kalamazoo, Michigan Employees' Retirement System as of December 31, 2007 and 2006 and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2008, on our consideration of the City of Kalamazoo, Michigan Employees' Retirement System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the historical pension supplementary information listed in the table of contents are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and do not express an opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of cash and investments as of December 31, 2007 and 2006, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements of the System. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohson". The signature is written in a cursive style with a large, stylized 'L' at the beginning.

# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

City of Kalamazoo, Michigan  
Employees' Retirement System

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

The following is a discussion and analysis of the financial performance and position of the City of Kalamazoo, Michigan Employees' Retirement System's ("The Retirement System"). It is intended to provide an overview of the Retirement Systems' financial activities for the fiscal year ended December 31, 2007. This analysis should be read in conjunction with the *Independent Auditors Report* and with the financial statements, which follows this section.

**Condensed Financial Information**

The table below compares key financial information in a condensed format between the current year and the prior year:

	Year Ended December 31,	
	<u>2007</u>	<u>2006</u>
Total assets	\$ 519,147,023	\$ 523,417,497
Total liabilities	<u>47,174</u>	<u>174,417</u>
Net assets held in trust for pension benefits	<u>\$ 519,099,849</u>	<u>\$ 523,243,080</u>
Net investment income	\$ 10,662,101	\$ 66,454,372
Contributions:		
Plan members	1,599,967	1,518,785
Employer	<u>-</u>	<u>-</u>
Total additions	<u>12,262,068</u>	<u>67,973,157</u>
Pension benefits	15,800,304	14,256,358
Refund payments to terminated employees	<u>125,963</u>	<u>109,251</u>
Total benefits paid	15,926,267	14,365,609
General and administrative expenses	<u>479,032</u>	<u>406,915</u>
Total deductions	<u>16,405,299</u>	<u>14,772,524</u>
Net increase (decrease) in net assets held in trust	(4,143,231)	53,200,633
Net assets held in trust for pension benefits Beginning of Year	<u>523,243,080</u>	<u>470,042,447</u>
<b>End of Year</b>	<u>\$ 519,099,849</u>	<u>\$ 523,243,080</u>
Ratio of benefits paid to contributions	995%	946%

City of Kalamazoo, Michigan  
Employees' Retirement System

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

**Overall Fund Structure and Objectives**

The Retirement System is a single-employer defined benefit contributory retirement plan. It was established to provide retirement, disability, and death benefits to city retirees and their beneficiaries. Active members earn service credit that entitles them to receive benefits in the future. Benefits currently being paid are significantly greater than contributions currently being received. Plan members are required to contribute between 1.0% and 6.5% of their annual covered salary to the Retirement System, depending upon their bargaining unit. The City contributes such additional amounts, as necessary, based on actuarial determinations, to provide assets sufficient to pay for member benefits. The City was not required to make a contribution for the 2007 or 2006 year. The excess of benefits over contributions is funded through investment income. The Retirement System is authorized by the State's Pension Investment Act, as amended, to invest in common stocks, real estate, and various other obligations, subject to certain limitations.

Each year, an actuarial valuation of the Retirement System is completed. As of the December 31, 2007 actuarial report, the valuation of assets represent 153% of accrued liabilities. Last year the ratio was 148.4%. The increase in overfunding is the result of the accrual of benefits during the year offset by the year's favorable experience.

**Asset Allocation**

It is the responsibility of the City of Kalamazoo Retirement Investment Committee (RIC) to recommend to the City Commission the investment policies and strategies, and retaining/monitoring the various investment managers, trustees, advisors, actuaries and other fiduciaries utilized by the Retirement System. The RIC determines the allocation of assets in accordance with allowable legal limits. In setting asset allocation policy, the RIC reviews the expected returns of various asset classes, the Plan's actuarial assumption rate, and the risks associated with alternative asset mix strategies. The RIC has established the following asset allocation:

<b><u>Asset Class</u></b>	<b><u>Target</u></b>
S&P Index Funds	30%
Micro Capitalization Domestic Equity	5%
Small Capitalization Domestic Equity	10%
Large Capitalization Domestic Equity	5%
Small Capitalization Value International Equity	10%
Emerging Markets Equity	10%
Bonds	25%
Real Estate Securities	2.5%
Real Estate	2.5%

This allocation policy offers the optimal mix for meeting longer term goals at an acceptable level of risk. The asset classes stated above shall be further diversified (where possible) as to style and manager type to reduce risk further, while providing the opportunity for enhanced return. The Retirement System's investments are held in 10 portfolios administered by five investment managers.

**Economic Factors, Investment Returns, and Other Important Matters**

Because the stock market is the principal investment forum utilized by the Retirement System, the market's 2007 market rate of return had a negative impact on net assets. In 2006, the value of the Retirement System net assets held in trust for pension benefits increased by 11.3 percent. In 2007 net assets held in trust decreased by 0.08%.

City of Kalamazoo, Michigan  
Employees' Retirement System

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

It is important to note that the Retirement System's purpose is to provide long-term benefit payments to its members and it is through long-term investing, as shown by the 25 year history of returns realized by the investments made by the RIC, that these promised benefits will be primarily funded. Through its investment policy asset allocation, the RIC has positioned the portfolio for this long-term investment objective.

In addition, to further maximize investment returns and preserve fund assets, the RIC carefully monitors the performance of each of its investment managers and takes the necessary corrective action to ensure acceptable investment results. To this end, the RIC voluntarily complies with the guidelines put forth by the Employee Retirement Income System Act (ERISA), which is designed to protect the interests of members and beneficiaries of pension systems.

**Contacting the System's Financial Management**

This financial report is designed to provide the public, citizens, and other interested parties with a general overview of the Retirement System's financial position. If you have questions about this report or need additional financial information, contact Thomas C. Skrobola, Director of Management Services, City of Kalamazoo, 241 W. South Street, Kalamazoo, MI 49009, (269) 337-8468.

# **FINANCIAL STATEMENTS**

**CITY OF KALAMAZOO, MICHIGAN**  
**Employees' Retirement System**  
**Statements of Plan Net Assets**  
**December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Cash and short-term investments	\$ 1,502,203	\$ 2,431,539
Receivables:		
Investments sold but unsettled	-	144,572
Interest and dividends receivable	1,523,439	1,945,482
Investments:		
U.S. treasuries	47,842,799	68,307,731
U.S. agencies	29,457,032	26,453,918
Corporate debt securities	54,864,290	29,466,392
Equity mutual funds	358,419,628	369,115,379
Real estate mutual funds	25,537,632	25,552,484
	<u>516,121,381</u>	<u>518,895,904</u>
Total investments		
	<u>519,147,023</u>	<u>523,417,497</u>
Total assets		
<b>Liabilities</b>		
Accounts payable	47,174	60,592
Accounts payable for investments purchased but not settled	<u>-</u>	<u>113,825</u>
Total liabilities	<u>47,174</u>	<u>174,417</u>
<b>Net assets held in trust for pension benefits</b> <b>(a schedule of funding progress is presented on page 14)</b>	<u><u>\$ 519,099,849</u></u>	<u><u>\$ 523,243,080</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF KALAMAZOO, MICHIGAN**  
**Employees' Retirement System**  
**Statements of Changes in Plan Net Assets**  
**For the Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>Additions</b>		
Investment income:		
Net increase (decrease) in fair value of investments	\$ (14,220,260)	\$ 45,039,998
Interest and dividends	26,312,291	22,253,473
Less investment advisor fees	<u>(1,429,930)</u>	<u>(839,099)</u>
Net investment income	10,662,101	66,454,372
Contributions - employees	<u>1,599,967</u>	<u>1,518,785</u>
Total additions	<u>12,262,068</u>	<u>67,973,157</u>
<b>Deductions</b>		
Pension benefits paid directly to participants	15,800,304	14,256,358
Refund payments to terminated employees	125,963	109,251
Trustee fees	223,472	172,657
Actuarial fees	48,031	77,905
Administrative fees paid to the City of Kalamazoo	109,444	105,235
Investment committee expenses	18,491	16,793
Other expenses	<u>79,594</u>	<u>34,325</u>
Total deductions	<u>16,405,299</u>	<u>14,772,524</u>
Net increase (decrease)	(4,143,231)	53,200,633
<b>Net assets held in trust for pension benefits</b>		
Beginning of year	<u>523,243,080</u>	<u>470,042,447</u>
<b>End of year</b>	<u><u>\$ 519,099,849</u></u>	<u><u>\$ 523,243,080</u></u>

The accompanying notes are an integral part of these financial statements.

# **CITY OF KALAMAZOO, MICHIGAN**

## **Employees' Retirement System**

### **Notes To Financial Statements**

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#### **1. PLAN DESCRIPTION**

The City of Kalamazoo, Michigan Employees' Retirement System (the "System") is a single-employer defined benefit contributory retirement plan which provides pension, death and disability benefits covering all full-time employees and some part-time employees of the City of Kalamazoo (the "City").

System membership consisted of the following at December 31, 2007 and 2006, the dates of the latest actuarial valuations:

	<u><b>2007</b></u>	<u><b>2006</b></u>
Retirees and beneficiaries currently receiving benefits	734	720
Terminated employees entitled to but not yet receiving benefits	38	42
Vested and non-vested active participants	<u>781</u>	<u>788</u>
<b>Total</b>	<u><b>1,553</b></u>	<u><b>1,550</b></u>

Plan members are required to contribute between 1.0% to 6.5% of their annual covered salary to the System for pension benefits, depending on bargaining unit. The City contributes such additional amounts, as necessary, based on actuarial determinations, to provide assets sufficient to pay for member benefits. No employer contributions were required for the years ended December 31, 2007 and 2006.

The System is administered by the City of Kalamazoo, Michigan Employees' Retirement System Pension Board of Trustees. Plan benefit provisions were established and may be amended under the authority of City Ordinances. Employee contribution requirements were established and may be amended subject to collective bargaining agreements and approval by the City Commission of the City of Kalamazoo.

**CITY OF KALAMAZOO, MICHIGAN**  
**Employees' Retirement System**

**Notes To Financial Statements**

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**2. SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting** - The System's financial statements are prepared on the accrual basis of accounting. Member contributions are recognized in the period in which they are due. The City's contributions are recognized when due and the employer has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

**Valuation of Investments and Income Recognition** - The System's investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have established market values are reported at estimated fair value.

**Administration** - Administrative costs are financed through the System's investment earnings.

**3. CASH AND INVESTMENTS**

***Cash and Short-term Investments*** - The System does not maintain any checking or other demand/time deposit accounts. Amounts reported as cash and short-term investments in the statement of plan net assets include cash and money market accounts held by the System's investment managers. These accounts are insured by the Securities Investors Protection Act for up to \$500,000 each. The carrying amount of these accounts as of December 31, 2007 and 2006 were \$1,502,203 and \$2,431,539, respectively, of which the insured amounts were \$1,000,009 and \$1,000,009, respectively. The remaining balances of \$502,194 and \$1,431,530, respectively, were uninsured and uncollateralized.

***Investments*** - The System is authorized by the State's Pension Investment Act, as amended, to invest in common stocks, real estate, and various other obligations, subject to certain limitations. The System's Investment Committee is responsible for recommending to the City Commission the investment policies and strategies, and retaining/monitoring the various investment managers, trustees, advisors, actuaries and other fiduciaries utilized by the System. The City Commission is responsible for approving the recommendations of the Investment Committee.

# CITY OF KALAMAZOO, MICHIGAN

## Employees' Retirement System

### Notes To Financial Statements

The System's investments are held in 10 portfolios administered by five investment managers. Following is a summary of the System's investments as of December 31:

	<u>2007</u>	<u>2006</u>
U.S. treasuries	\$ 47,842,799	\$ 68,307,731
U.S. agencies	29,457,032	26,453,918
Corporate debt securities	54,864,290	29,466,392
Equity mutual funds	358,419,628	369,115,379
Real estate mutual funds	<u>25,537,632</u>	<u>25,552,484</u>
	<b><u>\$ 516,121,381</u></b>	<b><u>\$ 518,895,904</u></b>

*Credit Risk.* The System's investment policy provides that its investments in bonds must be rated in the top four major grades as determined by two nationally recognized statistical rating organizations. As of December 31, 2007 and 2006, the System's investments in fixed income securities were rated by Standard & Poor's and Moody's as follows:

	<u>2007</u>		<u>2006</u>	
	<u>U.S. agencies</u>	<u>Corporate debt securities</u>	<u>U.S. agencies</u>	<u>Corporate debt securities</u>
<b>Standard &amp; Poor's</b>				
AAA	\$ 29,457,032	\$ 22,356,152	\$ 26,453,918	\$ 11,835,443
AA	-	12,658,347	-	5,666,487
A	-	9,868,605	-	5,184,667
BBB	-	3,918,706	-	4,028,404
Not rated	-	6,062,480	-	2,751,391
	<b><u>\$ 29,457,032</u></b>	<b><u>\$ 54,864,290</u></b>	<b><u>\$ 26,453,918</u></b>	<b><u>\$ 29,466,392</u></b>
<b>Moody's</b>				
AAA	\$ 29,457,032	\$ 24,181,945	\$ 26,453,918	\$ 10,746,873
AA	-	12,541,219	-	6,475,898
A	-	12,140,484	-	5,854,965
BAA	-	4,381,608	-	2,994,304
Not rated	-	1,619,034	-	3,394,352
	<b><u>\$ 29,457,032</u></b>	<b><u>\$ 54,864,290</u></b>	<b><u>\$ 26,453,918</u></b>	<b><u>\$ 29,466,392</u></b>

# CITY OF KALAMAZOO, MICHIGAN

## Employees' Retirement System

### Notes To Financial Statements

*Custodial Credit Risk.* For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy does not address custodial credit risk. Although uninsured and unregistered, the System's investments are not exposed to custodial credit risk since the securities are held by the counterparty in the System's name.

Investments in mutual funds and money market funds are not subject to custodial credit risk.

*Concentration of Credit Risk.* The System's investments are not exposed to concentration of credit risk relative to a single issuer (i.e., company or government agency) inasmuch as no holdings equal or exceed 5% or more of total investments.

The System's investment policy and State statutes provide that no more than 70% of the total investments may be in equity holdings and no more than 5% in real estate. As of December 31, 2007 and 2006, the System's equity holdings accounted for 69.4% and 71.1%, respectively, of the total investment portfolio; the System's holdings in real estate were 4.95% and 4.92% at December 31, 2007 and 2006.

*Interest Rate Risk.* As of December 31, 2007 and 2006, maturities of the System's debt securities were as follows:

		Investment Maturities (fair value by years)			
		Less Than 1	1-5	6-10	More Than 10
<b><u>2007</u></b>	<b><u>Fair Value</u></b>				
U.S. treasuries	\$ 47,842,799	\$ -	\$ -	\$ 764,598	\$ 47,078,201
U.S. agencies	29,457,032	387,712	3,887,648	3,187,047	21,994,625
Corporate debt	54,864,290	-	21,035,091	7,052,991	26,776,208
<b>Total debt securities</b>	<b><u>\$ 132,164,121</u></b>	<b><u>\$ 387,712</u></b>	<b><u>\$ 24,922,739</u></b>	<b><u>\$ 11,004,636</u></b>	<b><u>\$ 95,849,034</u></b>
<b><u>2006</u></b>					
U.S. treasuries	\$ 68,307,731	\$ 1,093,257	\$ 6,687,047	\$ -	\$ 60,527,427
U.S. agencies	26,453,918	3,645,365	4,907,417	2,915,629	14,985,507
Corporate debt	29,466,392	1,182,341	14,610,529	1,698,567	11,974,955
<b>Total debt securities</b>	<b><u>\$ 124,228,041</u></b>	<b><u>\$ 5,920,963</u></b>	<b><u>\$ 26,204,993</u></b>	<b><u>\$ 4,614,196</u></b>	<b><u>\$ 87,487,889</u></b>

# **CITY OF KALAMAZOO, MICHIGAN**

## **Employees' Retirement System**

### **Notes To Financial Statements**

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The System's investment policy does not address interest rate risk.

*Derivatives.* The System's investment policy permits the prudent use of derivatives to reduce portfolio risk and enhance investment return. Under the terms of the investment agreements, portfolio managers are required to report all derivative holdings on a quarterly basis. The Investment Committee monitors these reports to evaluate the System's exposure to credit, market and legal risk.

The portfolios managed by Jennison Associates utilize U.S. currency futures contracts, a type of derivative, to reduce overall portfolio volatility caused by interest rate risk. At December 31, 2007, the System had receivable futures contracts with a fair value of \$29,621,563 and payable futures contracts with a fair value of \$8,435,031. A cumulative gain on futures contracts amounting to \$194,048 has been recognized by the System through December 31, 2007. As of that date, a net receivable balance of \$79,067 has been reported in interest and dividends receivable. At December 31, 2006, the System had receivable futures contracts with a fair value of \$194,980,782 and payable futures contracts with a fair value of \$61,743,281. A cumulative gain on futures contracts amounting to \$131,474 has been recognized by the System through December 31, 2006. As of that date, a net payable balance of \$42,141 has been reported in interest and dividends receivable.

#### **4. ANNUAL REQUIRED CONTRIBUTION**

For both the years ended December 31, 2007 and 2006, the City had no required contributions, made no contributions and had no net retirement benefit obligation.

The annual required contributions for 2007 and 2006 were determined as part of an actuarial valuation of the System as of December 31, 2006 and 2005, respectively, using the entry age actuarial cost method. The other actuarial assumptions for the 2006 and 2005 valuations included: (a) a nominal rate of return, net of expense, on investments of 7.5% per year compounded annually; (b) projected salary increases of 4.0% per year compounded annually, attributable to inflation; (c) additional projected salary increases ranging from 0.0% to 8.0% per year, depending on age and service, attributable to seniority/merit; and (d) the assumption that pension benefits will increase after retirement from 1.0% to 2.0% per year depending on the bargaining unit, age, and the date of retirement. Any unfunded actuarial accrued liability is amortized as a level percentage of payroll on an open basis. The remaining amortization period at December 31, 2007 and 2006, was a rolling ten years for the System.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a five-year period.

# CITY OF KALAMAZOO, MICHIGAN

## Employees' Retirement System

### Notes To Financial Statements

#### 5. ADMINISTRATIVE EXPENSES

The following schedule identifies administrative expenses by type and percentage of net assets:

	<u>2007</u>		<u>2006</u>	
	<u>Amount</u>	<u>Percent of Net Assets</u>	<u>Amount</u>	<u>Percent of Net Assets</u>
Investment advisor fees	\$1,429,930	.276%	\$ 839,099	.160%
Trust and custodial fees	223,472	.043%	172,657	.033%
Administrative expenses	<u>255,560</u>	<u>.049%</u>	<u>234,258</u>	<u>.045%</u>
	<u><b>\$1,908,962</b></u>	<u><b>.368%</b></u>	<u><b>\$1,246,014</b></u>	<u><b>.238%</b></u>

#### 6. RISK MANAGEMENT

The System is exposed to various risks of loss related to torts, errors and omissions. The System participates in the City of Kalamazoo's risk management program for all of these exposures. The City's risk management program is primarily a self-insured program with reinsurance for amounts in excess of aggregate loss funds. The City estimates the liability for unpaid claims (including claims incurred but not reported) and allocates the cost to all appropriate entities and funds. There is no further exposure to the System that would require a liability to be recorded in the financial statements.

#### 7. PENSION BENEFITS

During 2001, the City Ordinance was amended to provide for a supplemental benefits payment to certain retirees. Subject to certain limitations as described in the Ordinance, these payments may occur every third year commencing in 2001. Accordingly, supplemental pension benefits amounting to \$747,397 were paid in 2007; no amounts were paid in 2006.

\* \* \* \* \*

**GASB REQUIRED  
SUPPLEMENTARY INFORMATION**

**CITY OF KALAMAZOO, MICHIGAN**  
**Employees' Retirement System**  
**Required Supplementary Information**

**Schedule of Funding Progress**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (A)</b>	<b>Actuarial Accrued Liability (B)</b>	<b>Overfunded AAL (OAAL) (A-B)</b>	<b>Funded Ratio (A/B)</b>	<b>Covered Payroll (C)</b>	<b>OAAL as a Percent of Covered Payroll</b>
12/31/1998	\$ 267,250,249	\$ 167,726,504	\$ 99,523,745	159.3%	\$ 35,607,350	279.5%
12/31/1999	303,750,495	192,167,206	111,583,289	158.1%	37,541,170	297.2%
12/31/2000	331,521,519	208,070,230	123,451,289	159.3%	39,377,238	313.5%
12/31/2001	349,206,708	220,302,430	128,904,278	158.5%	41,595,437	309.9%
12/31/2002	348,677,897	230,979,927	117,697,970	151.0%	40,316,918	291.9%
12/31/2003	361,205,383	245,919,424	115,285,959	146.9%	40,914,264	281.8%
12/31/2004	390,615,277	265,080,190	125,535,087	147.4%	41,989,819	299.0%
12/31/2005	422,565,761	294,416,007	128,149,754	143.5%	40,944,435	313.0%
12/31/2006	463,280,966	312,101,938	151,179,028	148.4%	42,164,958	358.5%
12/31/2007	500,788,244	327,242,870	173,545,374	153.0%	42,889,419	404.6%

**Schedule of Employer Contributions**

<b>Year Ended December 31</b>	<b>Annual Required Contributions</b>	<b>Percentage Contributed</b>
1998	\$ -	- %
1999	-	-
2000	-	-
2001	-	-
2002	-	-
2003	-	-
2004	-	-
2005	-	-
2006	-	-
2007	-	-

# **SUPPLEMENTARY INFORMATION**

**CITY OF KALAMAZOO, MICHIGAN**  
**Employees' Retirement System**  
**Schedule of Cash And Investments**  
**December 31, 2007 and 2006**

	Barclays Global Investors		Jennison Associates		Dimensional Fund Advisors, Inc.	
	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost
<b><u>December 31, 2007</u></b>						
Cash and short-term investment	\$ 9	\$ 9	\$ 612,953	\$ 612,953	\$ -	\$ -
<b>Investments</b>						
U.S. treasuries	-	-	47,842,799	45,966,202	-	-
U.S. agencies	-	-	29,457,032	29,138,626	-	-
Corporate debt securities	-	-	54,864,290	54,419,144	-	-
Equity mutual funds	153,027,859	64,573,350	-	-	205,391,769	163,619,454
Real estate mutual funds	-	-	-	-	10,334,594	9,782,394
Total investments	153,027,859	64,573,350	132,164,121	129,523,972	215,726,363	173,401,848
<b>Total cash and investment:</b>	<b>\$ 153,027,868</b>	<b>\$ 64,573,359</b>	<b>\$ 132,777,074</b>	<b>\$ 130,136,925</b>	<b>\$ 215,726,363</b>	<b>\$ 173,401,848</b>
<b><u>December 31, 2006</u></b>						
Cash and short-term investment	\$ 9	\$ 9	\$ 1,398,580	\$ 1,398,580	\$ -	\$ -
<b>Investments</b>						
U.S. treasuries	-	-	68,307,731	69,935,184	-	-
U.S. agencies	-	-	26,453,918	26,399,898	-	-
Corporate debt securities	-	-	29,466,392	29,109,550	-	-
Equity mutual funds	158,060,699	70,391,342	-	-	211,054,680	141,296,323
Real estate mutual funds	-	-	-	-	12,707,457	8,703,842
Total investments	158,060,699	70,391,342	124,228,041	125,444,632	223,762,137	150,000,165
<b>Total cash and investment:</b>	<b>\$ 158,060,708</b>	<b>\$ 70,391,351</b>	<b>\$ 125,626,621</b>	<b>\$ 126,843,212</b>	<b>\$ 223,762,137</b>	<b>\$ 150,000,165</b>

RREEF		Master Account		Total	
Fair Value	Cost	Fair Value	Cost	Fair Value	Cost
\$ -	\$ -	\$ 889,241	\$ 889,241	\$ 1,502,203	\$ 1,502,203
-	-	-	-	47,842,799	45,966,202
-	-	-	-	29,457,032	29,138,626
-	-	-	-	54,864,290	54,419,144
-	-	-	-	358,419,628	228,192,804
15,203,038	12,827,365	-	-	25,537,632	22,609,759
15,203,038	12,827,365	-	-	516,121,381	380,326,535
\$ 15,203,038	\$ 12,827,365	\$ 889,241	\$ 889,241	\$ 517,623,584	\$ 381,828,738
\$ -	\$ -	\$ 1,032,950	\$ 1,032,950	\$ 2,431,539	\$ 2,431,539
-	-	-	-	68,307,731	69,935,184
-	-	-	-	26,453,918	26,399,898
-	-	-	-	29,466,392	29,109,550
-	-	-	-	369,115,379	211,687,665
12,845,027	11,532,325	-	-	25,552,484	20,236,167
12,845,027	11,532,325	-	-	518,895,904	357,368,464
\$ 12,845,027	\$ 11,532,325	\$ 1,032,950	\$ 1,032,950	\$ 521,327,443	\$ 359,800,003



**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

June 30, 2008

Members of the Employees'  
Retirement System Investment Committee  
City Commission of Kalamazoo  
Kalamazoo, Michigan

We have audited the financial statements of the *City of Kalamazoo, Michigan Employees' Retirement System* as of December 31, 2007 and 2006, and have issued our report thereon dated June 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the *City of Kalamazoo, Michigan Employees' Retirement System's* internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the *City of Kalamazoo, Michigan Employees' Retirement System's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests and the reports of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and the City Commission and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style.